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World Development Vol. xx, pp. xxx–xxx, 2016

http://dx.doi.org/10.1016/j.worlddev.2016.01.018

Livelihood Diversification in Rural Laos

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Summary. — Livelihoods in rural southern Laos are highly diverse, comprising a wide range of different productive activities. In this paper motivations for diversification within livelihood strategies in rural communities in southern Laos are investigated through theories of distress-induced risk spreading in response to crises and progressive success and wealth. Results indicate that livelihood diversification at the household level is associated with higher wealth status and ownership of a range of assets as part of a progressive, accumulation livelihood strategy for those with fewer constraints. Diversification strategies across all socioeconomic groups commonly include a combination of agricultural and non-agricultural activities as well as migrant remittances, however, the types of activities undertaken are dependent on wealth. The increased asset status of households extends to enabling higher income-generating migration opportunities and may facilitate transition into both non-agricultural employment, as well as into a wider variety of agricultural employment activities. This further strengthens livelihoods through the mutually reinforcing complementarities across livelihood activities and reducing the risks associated with each. But this has the effect of leaving the poor, with lower levels of diversification, at most risk to natural or economic disasters or other shocks. Results have implications for development policy for rural southern Laos, highlighting the importance of recognizing the positive aspects of livelihood diversification for rural poverty reduction. Broadened policy mechanisms which support and encourage diversification and mobility at the household level are needed. Likewise, pro-poor development initiatives that focus on increasing the diversity of assets (rather than the quantity of any one single asset) of the poor are more likely to be successful in supporting livelihood diversification and reducing vulnerability.

Key words — agricultural livelihoods, diversification, asset wealth, Laos, resilience, risk mitigation

1. INTRODUCTION

(a) *Livelihood diversification*

Livelihood strategies are the combinations of activities and assets that generate the means of household survival. Despite increasing attention in the literature, rural livelihood strategies are still not well understood and limit the understanding of resource-user behavior (Pauly, 2006; Salas & Gaertner, 2004). Although agriculture predominates in many rural communities, livelihoods are complex and rural households are often pluriactive, maintaining a diverse portfolio of activities among which crop and livestock production feature alongside many other contributions to family well-being (Dorward, 2002; Smith, Nguyen Khoa, & Lorenzen, 2005). The process by which rural households construct a diverse portfolio of activities and assets in order to survive has been defined as "livelihood diversification" by Ellis (2000).

Livelihood diversification is widespread and found in all locations as well as across farm sizes and wealth groups, and is not only a distinguishing feature of rural survival strategies in contemporary poor countries, but is also present in urban areas of developing and rural areas of developed countries (Ellis, 2000). The many different combinations of livelihood activities that are practised imply that the goals and motivations for diversification are themselves varied, so allow for multiple interpretations of what these comprise (Perz, 2005b). In rural southern Laos, occupational multiplicity is becoming more common and more pronounced (Rigg, 2006b), however little is known about why, how, and what implications this has for the rural poor. There is extensive debate about the role of livelihood diversification in the literature (e.g., Allison & Ellis, 2001; Anderson & Deshingkar, 2005; Ellis, 1998, 2000; Marschke & Berkes, 2006; Reardon, Taylor, Stamoulis, Lanjouw, & Balisacan, 2000) which can be broadly distinguished as reflecting either: (i) livelihood distress or (ii) progressive success.

(i) *Distress diversification*

Distress diversification is where diversification is seen as a strategy of spreading risk to reduce vulnerability to unpredictable crises such as floods, droughts, and illness as well as the seasonal fluctuations of natural resources (Brugère, Holvoet, & Allison, 2008; Ellis, 2000; Freeman & Ellis, 2005; Lohmann & Liefner, 2009; Smith *et al.*, 2005). The extent to which risk affects different households and their behavior depends on their risk aversion which varies inversely with wealth and liquid assets. It is thought that in general, poorer households with few liquid assets have a higher risk incentive to diversify than richer households with more assets (Haggblade, Hazell, & Brown, 1989). It is often stated that this type of "distress-pushed" diversification forces people into a variety of low-return activities, leading to more stable but lower household income (Lohmann & Liefner, 2009; Reardon *et al.*, 2000). This is due to the trade-off between diversification as a risk avoidance strategy and specialization as a more efficient, higher income, but risk-prone strategy (Wilen, Lockwood, & Botsford, 2002). Risk-averse households are willing to pay the implicit insurance premium in the form of foregone gains from specializing as a method of insuring against income shocks (Anderson & Deshingkar, 2005; Iiyama, 2006; Reardon *et al.*, 2000; Wilen *et al.*, 2002). In this light, diversification is seen as an involuntary reversion of the

* This research was funded by the Natural Environment Research Council and the Economic and Social Research Council. The authors would like to thank the Department of Livestock and Fisheries in Savannakhet and the Wetlands Alliance for providing field support with particular thanks to Lamgneun Phengsikeo. Final revision accepted: January 11, 2016.

process of specialization, brought on by crises such that the multiplication of activities is an adaptation necessary to ensure survival (Cinner, Mcclanahan, & Wamukota, 2010).

(ii) *Progressive diversification*

Although risk theory predicts that households will diversify less as their wealth increases and risk aversion motives decline, liquidity and credit constraints on diversification for the poor may lead to the opposite outcome: more diversification among the non-poor than among the poor. Progressive success and wealth, which in turn lead to increased access to resources, may lead to increased livelihood diversification as although they may have lower risk incentives than the poor, the non-poor may be more capable of financing this diversification if it is costly, has high entry barriers, and is initially risky (Reardon *et al.*, 2000). From this point of view, diversification can be seen as a deliberate strategy adopted by pro-active households with greater opportunities (Cinner *et al.*, 2010). Although this seems contrary to the theory of specialization, diversification at the household level may not necessarily reduce efficiency, as it still allows for individuals to specialize and develop skills within a household (Ellis, 2000).

This progressive diversification can be further investigated in terms of household assets. The asset categories: natural, physical, human, financial, and social capital have been defined as analytically useful components of the assets that underpin individual and household livelihood strategies by determining the livelihood options available to households as part of the Sustainable Rural Livelihoods framework (Ellis, 2000; Iiyama, Kariuki, Kristjanson, Kaitibie, & Maitima, 2008). Variation in assets may be due to differences in both the amount and diversity of those assets, and both may affect livelihood diversification. It has been hypothesized that possessing a diverse array of assets may be important for maintaining a variety of livelihood activities (Anderson & Deshingkar, 2005; Bebbington, 1999; Perz, 2005b). This theory of diversification suggests the amount of diversity in a household's portfolio reflects the amount of diversity in the assets (or factors of production) it owns or has access to, rather than the quantity of those assets. In contrast, Perz (2005b) suggested that inequality in terms of a given asset may be important in enabling a household to add a specific livelihood income to a household, as the level of capital asset endowment affects the capacity to invest (Iiyama, 2006), and a study in Vietnam proposed that this ability to mobilize capital is essential to enabling diversification (Thulstrup, 2015).

(b) *Types of diversification strategy*

There are many risks associated with agriculture, and many rural farm households may be unable to meet basic needs, so household members often search for alternative means of livelihoods to cope (Chianu, Ajani, & Chianu, 2008). As a result, most rural households depend on some combination of agricultural and non-agricultural activities to make a living.

Increasing livelihood diversification in Laos is being accompanied by a trend toward deagrarianization as the role of non-farm activities grows in importance (Bouahom, Douangsavanh, & Rigg, 2004). There are a number of different motivations for allocating labor to the non-farm sector including: (i) better relative returns, (ii) inadequate farm output, (iii) a need for non-farm cash sources to pay for farm inputs, and (iv) risky returns to farming (Reardon *et al.*, 2000). Non-farm activities have the potential to play a crucial role in reducing vulnerability to poverty by providing households with a form of insurance against the risks of farming and reducing reliance on natural resources (Lohmann & Liefner, 2009; Rigg, 2006a). Non-farm activities also enable households to generate capital to adopt new production methods and raise output (Evans & Ngau, 1991).

However, the reported effects of off-farm and non-farm employment on rural income inequality are mixed. Bouahom *et al.* (2004) described a situation in northern Laos where due to the little hope of intensified agricultural production lifting households into food security, households were driven to become dependent on off- or non-farm work by necessity, not choice, in an example of distress diversification. In the Amazon region Perz (2005b) found that few households diversified into non-agricultural income sources, and those that did also had incomes comparable to households primarily reliant on agriculture. Illustrating further differences in results, Iiyama *et al.* (2008) concluded from a study of African farmers that the wealthiest households were those with non-farm income, and those pursuing higher return agricultural activities. This positive association between non-farm income shares and total income or wealth levels in Africa was also observed by Reardon *et al.* (2000) who suggested a rough pattern: a positive relationship between non-farm income share (and level) and total household income and/or landholding in much of Africa, a negative relationship in much of Latin America, and a very mixed set of results in Asia. In summary, the evidence is very varied as to the effect of non-farm employment on rural income.

The increase in non-farm activities in rural southern Laos has been accompanied by evidence of heightened levels of mobility and delocalization with remittances playing a growing role in household income (Rigg, 2005, 2006b). However, in Laos, there are significant gaps in knowledge regarding migration, including basic information such as the incidence, type, and geographical patterns of movement (Rigg, 2007). Migration may be propelled by poverty, reflecting resource scarcities at the local level (Rigg, 2006a) or encouraged by wealth as an outcome of prosperity.

(c) *Objectives*

The reasons for livelihood diversification are varied, ranging from an attractive choice for accumulation purposes, enabled by asset wealth and the diversity of those assets, to a distress-induced insurance strategy brought on by crises. Identifying the type of diversification that takes place is important for forming appropriate policy and development initiatives to support the rural poor. If livelihood diversification is a sign of progress by which households are lifting themselves out of poverty then this should be supported by relevant policy mechanisms and initiatives, however, diversification may alternatively be providing a signal that a particularly vulnerable household is in distress and in need of support through a different approach.

Determining why occupational multiplicity is becoming more common in rural southern Laos and how households are diversifying their livelihoods therefore has important implications for pro-poor policy and development initiatives. This study investigates the motivations for livelihood diversification in rural southern Laos by exploring the two hypotheses of progress-pulled and distress-pushed diversification. This was investigated through analyzing whether the level of occupational diversification of a household was positively or negatively correlated with its wealth status. As the measurement of wealth was derived from a combination of the amount and variation of assets owned, the effect of these were also analyzed explicitly by exploring the relationship between the *quantity* of assets owned